

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2017-292-WS

In the Matter of

Application of Carolina Water Service,
Inc. for an Adjustment of Rates and
Charges and Modifications to Certain
Terms and Conditions for the Provision of
Water and Sewer Service

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**DIRECT TESTIMONY
OF
MICHAEL R. CARTIN**

Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS ADDRESS.

A. My name is Michael R. Cartin. I am the Operations and Regulatory Affairs Manager for Carolina Water Service, Inc. ("CWS"). My business address is 150 Foster Brothers Drive, West Columbia, South Carolina 29172.

Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?

A. As CWS's Operations and Regulatory Affairs Manager, my duties and responsibilities include:

- Providing direction to CWS's operations staff in the performance of their duties and establishing work priorities to achieve management initiatives,
- Developing, monitoring and executing the approved capital plan and operating budget,
- Managing the preparation and execution of all Public Service Commission ("PSC") activities in coordination with the Finance team,
- Using internal databases and other tools to support qualitative and quantitative analysis and metrics for state operations,
- Working with all functional areas to receive and communicate financial results to support operations.

Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL BACKGROUND?

1 **A.** I graduated from the University of South Carolina in May of 2008 with a bachelor's degree
2 in Corporate Finance. I have over eight years of experience in the regulated utility industry. I
3 worked at the South Carolina Office of Regulatory Staff as an Electric Utilities Specialist for over
4 four years. As an Electric Utilities Specialist, I audited the applications of investor owned electric
5 utilities, and presented testimony to this Commission in various fuel clause adjustment hearings
6 and rate case proceedings. I also worked as a Marketing Analyst for First Citizens Bank and Trust
7 before joining CWS as a Senior Financial Analyst in July of 2014. I was promoted to Operations
8 and Regulatory Affairs Manager in December of 2016.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 **A.** The purpose of my testimony is to support CWS's application for an adjustment of certain
11 rates and charges for the provision of water and sewer services in this docket and discuss the
12 Company's operations. Specifically, I will discuss: 1) the effect of a recent increase in purchased
13 water rates from the City of West Columbia, 2) CWS's request for a Utility System Improvement
14 Rate ("USIR"), 3) the condemnation proceedings brought by the Town of Lexington for CWS's I-
15 20 wastewater system, 4) the prospects of an interconnection of Friarsgate to a 208 qualifying
16 wastewater treatment provider, 5) the status of litigation involving discharges of the Friarsgate
17 Plant 6) the Company's response to a recent problem with its meter reading contractor, 7) discuss
18 the Company's customer outreach since the last case, 8) renewal of the York County Franchise
19 Agreement, 9) CWS's response to a complaint by the Dancing Dolphin in Beaufort, and 10) a
20 provision regarding liability protection for interruption of service in the proposed tariff.

21 **Q. DOES CWS PURCHASE WATER FROM THE CITY OF WEST COLUMBIA?**

22 **A.** Yes. CWS purchases bulk water from the City of West Columbia for its customers receiving
23 service in Indian Pines, Idlewood, I-20, Peachtree Acres, Parkwood and Vanarsdale subdivisions.

1 **Q. HOW MUCH DOES CWS PAY FOR WATER PURCHASED FROM THE CITY**
2 **OF WEST COLUMBIA?**

3 **A.** CWS pays \$5.00 per 1,000 gallons of water purchased from West Columbia. The
4 Company also pays Base Facilities Charges (“BFC”) for the purchased water depending on meter
5 size and hydrant fees.

6 **Q. DID THE CITY OF WEST COLUMBIA INCREASE THE PRICE OF ITS BULK**
7 **WATER RECENTLY?**

8 **A.** Yes. In November 2016, the City of West Columbia raised the price of bulk water for CWS
9 by 67% from \$3.00 to \$5.00 per 1,000 gallons. The City also began charging BFCs and hydrant
10 fees at this time, as well, where they previously did not.

11 **Q. WHAT IS THE IMPACT OF THE WEST COLUMBIA WATER RATE INCREASE**
12 **ON CWS’S REQUEST FOR RATE RELIEF?**

13 **A.** The change in rates resulted in a \$494,085 annual increase in purchased water expense to
14 existing CWS Customers reflected in the application. The Company has experienced additional
15 rate increases from other bulk water providers since the last rate case but none that compare to the
16 magnitude of the rate increase from the City of West Columbia.

17 **Q. CAN CWS OBTAIN WATER FROM A DIFFERENT SOURCE TO SERVE THE**
18 **CUSTOMERS WHO RECEIVE WEST COLUMBIA WATER?**

19 **A.** Not at this time. However, CWS continues to explore all available options.

20 **Q. CWS HAS REQUESTED PERMISSION TO IMPLEMENT A UTILITY SYSTEM**
21 **IMPROVEMENT RATE. WHAT IS A UTILITY SYSTEM IMPROVEMENT RATE?**

A. A Utility System Improvement Rate ("USIR") is a charge that allows water and wastewater companies to recover certain infrastructure improvement costs between rate cases. It is more commonly referred to in other states as a Distribution System Improvement Charge or a "DSIC."

Q. PLEASE DESCRIBE THE USIR CWS IS REQUESTING IN THIS CASE?

A. CWS is requesting a USIR of up to 10% of the base revenues approved.

Q. WHAT WOULD BE THE RESULTING CHARGES ON A CUSTOMER'S BILL?

A. The charge would depend on the infrastructure investments made by the Company. The table immediately below illustrates rate impacts of various levels of investments made. The highest "Net Investor Supplied Addition" column represents the maximum possible USIR based on the proposed 10% cap. The flat rate is proposed to be billed per Single Family House or Equivalent.

Water Territory I	
Net Investor Supplied Water Additions	USIR Flat Rate
\$500,000	\$0.58
\$1,000,000	\$1.16
\$1,500,000	\$1.75
\$2,000,000	\$2.33
\$2,500,000	\$2.91
\$3,000,000	\$3.49
\$3,500,000	\$4.08
\$4,000,000	\$4.66
\$4,500,000	\$5.24
\$5,000,000	\$5.82
\$5,005,062	\$5.83

Water Territory II	
Net Investor Supplied Water Additions	USIR Flat Rate
\$500,000	\$0.85
\$1,000,000	\$1.70
\$1,500,000	\$2.56
\$2,000,000	\$3.41
\$2,500,000	\$4.26
\$3,000,000	\$5.11
\$3,500,000	\$5.96
\$4,000,000	\$6.81
\$4,175,719	\$7.11

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Sewer Territory	
Net Investor Supplied Sewer Additions	USIR Flat Rate
\$500,000	\$0.42
\$1,000,000	\$0.83
\$1,500,000	\$1.25
\$2,000,000	\$1.66
\$2,500,000	\$2.08
\$3,000,000	\$2.50
\$3,500,000	\$2.91
\$4,000,000	\$3.33
\$4,500,000	\$3.74
\$5,000,000	\$4.16
\$5,500,000	\$4.57
\$6,000,000	\$4.99
\$6,500,000	\$5.41
\$7,000,000	\$5.82
\$7,500,000	\$6.24
\$7,907,595	\$6.58

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3 **Q. WHY DOES THE COMPANY WANT A USIR?**

4 A. A USIR will benefit CWS customers by improving service reliability, improving and
5 protecting water quality, improving system resiliency, and creating rate stability. By implementing
6 a mechanism that promotes proactive investment of capital, the USIR will help improve quality of
7 service to customers through accelerated replacement of aging infrastructure. The USIR would
8 also facilitate more gradual rate changes, and may enable the Company to increase the length of
9 time between general rate cases. Fewer rate filings will reduce the expenses to customers
10 associated with the regulatory process.

11 **Q. WHEN WOULD THE USIR BE DETERMINED?**

12 A. In the first quarter of each year after this rate case, CWS would apply with the Commission
13 requesting recovery of qualifying capital through a USIR. The Office of Regulatory Staff ("ORS"),

and any other interested parties, would review and comment on the Company's expenditures. If, after notice to customers and an opportunity to be heard, the Commission finds the expenditures prudent and reasonable, the Company would be allowed to earn a return on prudent investments through a USIR. The Commission would determine the appropriate schedule for these proceedings, but CWS suggests they could be completed within 90 to 180 days, depending on whether there is opposition to the Company's request.

Q. WHEN WOULD THE USIR APPEAR ON A CUSTOMER'S BILL?

A. After the Commission approves the charge.

Q. WILL A USIR ENHANCE CWS'S SUPPORT OF SOUTH CAROLINA'S ECONOMIC DEVELOPMENT?

A. Yes. South Carolina's population is growing rapidly. Migration to the state over the past five years is the fifth highest rate in the United States.¹ For South Carolina, that means current water infrastructure is increasingly stretched and supplying citizens and businesses with enough clean water is a challenge to support the pace of growth. The cost of drinking water infrastructure improvement in South Carolina is estimated at \$1.8 billion over the next 20 years.² According to the American Society of Engineers:

"This deteriorating infrastructure impedes South Carolina's ability to compete in an increasingly global marketplace. Success in a 21st century economy requires serious, sustained leadership on infrastructure investment at all levels of government. Delaying these investments only escalates the cost and risks of an aging infrastructure system, an option that the country, South Carolina, and families can no longer afford."³

¹ "Best States for Business". (<https://www.forbes.com/places/sc/>)

² American Society of Engineers. "Infrastructure in South Carolina" (<https://www.infrastructurereportcard.org/state-item/south-carolina/>).

³ American Society of Engineers. "Infrastructure in South Carolina" (<https://www.infrastructurereportcard.org/state-item/south-carolina/>).

1 Reliable water infrastructure for South Carolina is not a choice, but a priority to build a suitable
2 recruitment environment for South Carolina businesses and communities. Although they have not
3 done so often, public and private water services will have to work together to develop solutions
4 for the future of South Carolina.

5 **Q. HAS THE TOWN OF LEXINGTON BROUGHT A CONDEMNATION ACTION**
6 **OF THE I-20 WASTEWATER TREATMENT SYSTEM?**

7 **A.** Yes. On October 9, 2017, the Town of Lexington initiated a condemnation action against
8 CWS to take the CWS I-20 wastewater system (C/A No. 2017-CP-32-03693). CWS did not contest
9 the Town's right to take the system and, instead, encouraged the Town to act quickly and provided
10 all information and access to the system requested by the Town. On February 1, 2018, the Town
11 exercised its right to take possession of the system and, effective that same day, also received
12 approval of the Town's request that DHEC transfer the NPDES Permit SC0035564 for operation
13 of the I-20 System. CWS has not had control or possession of the I-20 system since February 1,
14 2018, has ceased all operations of the system, and consented to the condemnation of the system
15 subject to a determination of appropriate just compensation. The condemnation process will be
16 completed following a jury trial to determine valuation of the system. No trial date has been set.

17 **Q. WHAT IS THE IMPACT OF THE I-20 CONDEMNATION ON CWS' REQUEST**
18 **FOR RATE RELIEF?**

19 **A.** The impact of the I-20 Condemnation increased CWS's revenue requirement by \$564,428.
20 CWS removed \$4,387,094 in rate base for the plant in service at the I-20 wastewater system at the
21 time of the application. The Company removed 2,204 wastewater customers as part of the
22 condemnation. CWS will continue to serve its water customers in the I-20 service territory. The

1 revenue numbers mentioned above reflect the recent tax reform mentioned in more detail in Robert
2 Hunter's direct testimony.

3 **Q. PLEASE TELL US THE STATUS OF LITIGATION INVOLVING DISCHARGES**
4 **FROM THE FRIARSGATE PLANT.**

5 **A.** The River Runner Outdoor Center, Inc. and a group of other businesses who assert that
6 they use and benefit from recreational use of and access to the Saluda River sued CWS in the South
7 Carolina Court of Common Pleas in Richland County asserting claims for nuisance and violations
8 of the Unfair Trade Practices Act (C/A 2017-CP-40-04611). Plaintiffs seek to recover actual and
9 punitive damages they claim were directly caused by CWS's acts or omissions in discharging into
10 the Saluda River. CWS has tendered the matter to its insurance carrier which currently is providing
11 a defense. Counsel for CWS has moved to dismiss the action, but no date has been set for a hearing
12 on that motion.

13 **Q. CWS HAS EXPERIENCED SOME DIFFICULTY WITH ITS METER READING**
14 **CONTRACTOR. PLEASE EXPLAIN WHAT HAPPENED.**

15 **A.** In September of 2017, the Company discovered one of its contracted meter readers was
16 not reading our customer's meters. The Company cannot be certain but believes the contractor
17 "ghost read" meters in Brighton Forest, Planters Station, Golden Pond, Rollingwood and
18 Watergate subdivisions. The contractor read meters from April to August of 2017 before being
19 terminated. This affected approximately 1,000 customers. Once the issue was discovered, the
20 Company issued rereads to all customers affected and "true up" bills were issued after accurate
21 meter reads were taken. The Company sent letters to all affected customers and payment plans
22 were offered to customers that received a higher than normal bill due to the true up.

Q. WHAT HAS CWS DONE TO ADDRESS THE PROBLEM WITH THE METER READER?

A. CWS immediately took steps to prevent this problem from reoccurring. First, CWS demanded the immediate termination of the employee. Second, the Company held multiple meetings with our meter reading contractor. The purpose of these meetings was to understand the root cause of what happened and, more important, to implement additional procedures to prevent this activity from happening again. This is a list of some of the additional measures:

1. Enhanced hiring process

The contractor has put into place an enhanced hiring process to help ensure that only the most appropriate contract employees are hired.

2. Random verification of meter reads

CWS is implementing a new process that creates field activities to perform reads for randomly selected addresses. This will provide additional oversight and will allow the Company's operators to audit our contractor and validate that the meters are being read accurately. New field activities were distributed to field staff starting in November 2017 to verify reads at randomly selected premises.

3. Monthly reports from contractor

Our contractor is now responsible for monthly reports stating any problem areas or issues it experiences in the field when reading meters.

4. Review of customer service data

The Company is reviewing call records and monthly customer service reports to look for and respond to trends in high bill complaints and meter reading inaccuracies.

5. "Zero consumption" reports

The Company will run a monthly "zero consumption" report and distribute to operations to check for stuck meters.

6. "Estimated read report"

The Company will run an "Estimated Read Report" quarterly to check for compliance with regulations on multiple estimates at the same premise.

Q. PLEASE PROVIDE AN UPDATE ON CWS'S CUSTOMER OUTREACH SINCE THE LAST RATE CASE.

1 **A.** As part of the Company's commitment to improve communications with its customers,
2 CWS organized and held three public town hall meetings to summarize the rate request, answer
3 customer questions and take customer feedback. The meetings were held in Lexington County,
4 York County and Anderson County. All customers, local elected officials, and various
5 stakeholders were invited to attend. Besides providing input on the rate case, attendees were also
6 provided contact information for CWS's local Communications Coordinator, who has fielded
7 numerous inquiries since the meetings. A follow-up letter was sent to all those that signed in to
8 let them know that the Company appreciated their input and would hold more meetings on the
9 case. CWS held a follow-up meeting on February 21, 2018 in Irmo, and has scheduled two more
10 meetings in Lake Wylie and Greenville. These meetings are drop-ins for customers to speak one-
11 on-one with CWS representatives and to get their feedback and answer questions about the rate
12 case, customer service issues, CWS's work in the community and any other topics of interest.

13 CWS is also an active member of the Midlands River Coalition. The Coalition is
14 comprised of many stakeholders who have joined to start an enhanced monitoring program for the
15 Lower Saluda River during the recreational season. The goal of the Coalition is to ensure safety
16 of individuals using the river and to educate the public on issues related to natural waters. The
17 Coalition also strives to provide accessible data to river users, so they can make informed decisions
18 on when to use the river for recreational activities.

19 **Q.** **CWS HAS REQUESTED APPROVAL OF A FRANCHISE EXTENSION IN YORK**
20 **COUNTY IN A SEPARATE DOCKET. PLEASE SUMMARIZE THE YORK COUNTY**
21 **PROPOSED FRANCHISE RENEWAL AND TERMS.**

A. CWS has negotiated an extension of its franchise agreement with York County for a period of 25 years through February 5, 2043. The terms of the franchise agreement, which was unanimously approved by the York County Council, generally provides,

1. York County has agreed to lease to CWS all County-owned infrastructure, including real property, easements and leases within the CWS Franchise area. CWS will maintain upgrade, extend or replace the leased assets;
2. York County will continue to own, maintain and retain control of its Crowders Creek Pump Station and main lines operated for the use and benefit of CWS and York County will complete the upfit of a portion of the sewer line leased to CWS;
3. CWS has agreed to pay York County annual capital recovery for the leased assets;
4. CWS has agreed to a 2% franchise fee on the capital recovery charge payments made to York County;
5. CWS has agreed to meet all federal, state and local regulatory requirements to include submission of a fat, oils and grease program, recognizing drought restrictions, treatment for pH, odor and corrosion control and maintenance of performance metrics for billing results, call center performance and customer complaints;
6. CWS has agreed to make an assessment of its water and sewer system need within the Franchise Area and develop a 10-year capital improvement plan; and
7. CWS has agreed to install emergency backup connection facilities for water supply to Charlotte Mecklenburg Utilities.

The franchise agreement contains additional specific terms and conditions and is subject to Commission approval. CWS will present the franchise agreement in greater detail in an application to approve the franchise agreement. CWS and York County will operate under their 1992 franchise agreement until the Commission approves the new franchise agreement.

Q. PLEASE ADDRESS THE COMPLAINT BY THE DANCING DOLPHIN

A. Dancing Dolphin Properties, LLC ("Dancing Dolphin") manages several properties in the wastewater only subdivision of Palmetto Apartments. Wastewater service to this subdivision is collected by CWS and transferred to Beaufort-Jasper Water & Sewer Authority ("BJWSA") for treatment. Prior to the rate filing in Docket No. 2015-199, rates were calculated on a variable pass-

1 through basis for this area. CWS had to wait for receipt of the bulk wastewater invoice from
2 BJWSA to initiate the manual process to calculate and input the variable supply rate into the billing
3 system each month. Because of the delay in receiving the bulk provider invoice, there was a
4 corresponding delay between the service period end date and the bill issuance date of
5 approximately 60 days. In Order No. 2015-876, the Commission approved a flat wastewater
6 charge of \$52.93 per unit for residential service and elimination of the pass-through rate
7 mechanism. The Company no longer had to wait on the bulk water invoices to send bills to its
8 customers. When the new tariff took effect, many bulk water customers like the Dancing Dolphin,
9 were being billed on the lagging schedule caused by the old pass-through tariff. In February 2016,
10 CWS began moving the bill date up slightly each month to eliminate the lag. This process,
11 completed by January of 2018, resulted in the Dancing Dolphin receiving thirteen bills in 2017.
12 We understand how this process could give rise to confusion, and have extended a one month bill
13 credit to the Dancing Dolphin's accounts as a goodwill gesture.

14 **Q. WHY IS THE COMPANY REQUESTING NEW LANGUAGE IN ITS TARIFF**
15 **REGARDING LIABILITY FOR INTERRUPTION OF SERVICE IN ITS TARIFF?**

16 **A.** The proposed language, found in Exhibit A, on p. 6, Section 1.I and on p. 10 in Section
17 1.G, notifies customers of the Commission's jurisdiction over disputes concerning interruption of
18 service. The Commission regulates Standards and Quality of Service of water utilities in Article
19 7, Subarticle 7 and wastewater utilities in Article 5, Subarticle 7 of Chapter 103 of the South
20 Carolina Code of Regulations. Interruption of service is regulated in S.C. Code Reg. § 103-771
21 and §103-551. The Commission's regulations concerning Customer Relations in Article 7,
22 Subarticle 4, and Article 5, Subarticle 4, provide remedies for interruption of service. Limiting

1 the remedies for interruption of service to those provided in the regulations will eliminate the
2 prospect of unnecessary litigation and result in cost savings that ultimately benefit our customers.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes, it does. I would like to thank the Commission for hearing our case.